

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lake County	County Lake
Fiscal Year End 12/31/05	Opinion Date 4/13/06	Date Audit Report Submitted to State 8/25/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

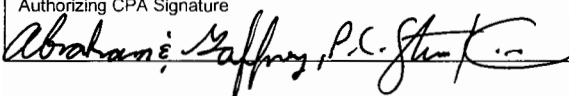
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single audit	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	License Number 1101022020

Lake County, Michigan
FINANCIAL STATEMENTS
December 31, 2005

Lake County, Michigan

December 31, 2005

BOARD OF COMMISSIONERS

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Lee Schwartz	Vice Chairperson
Ken Wenzel	Vice Chairperson Pro Tem
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Phillip Maiville	Commissioner
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Lake County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lake County Road Commission. The Lake County Road Commission represents 92% and 94%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audits of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2006 on our consideration of Lake County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006

Management's Discussion and Analysis

As management of the *County of Lake*, we offer this narrative overview and analysis of the financial activities of the County, including limited information pertaining to the separately audited Road Commission for the year ended December 31, 2005. For more detailed information, the Road Commission's separately issued financial statements may be obtained from their administrative office.

Financial Highlights

- The assets of the County primary government exceeded its liabilities at the close of the fiscal year by \$10,663,834 (*net assets*). Of this amount, \$5,371,262 (*unrestricted net assets*) may be used to meet the government's ongoing obligations.
- The primary government's total net assets reflected a net increase of \$1,113,831, or 11.7 percent.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$3,585,223, a net increase of \$1,147,705 or 47.1 percent over the prior year. Of this total, 86.6 percent or \$3,105,715 is *available for spending* at the government's discretion (*unreserved and undesignated fund balance*).
- At the end of the fiscal year, unreserved and undesignated fund balance for the General Fund was \$416,470, an amount equal to 9.5 percent of total General Fund expenditures (including operating transfers).
- The primary government's total net bonded debt increased by \$4,199,340.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets indicate whether the financial position of the County is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Lake County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health and welfare, community and economic development, recreation and cultural functions. The business-type activities primarily represent the administration of the delinquent property tax system.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also three legally separate entities: the Lake County Road Commission, the County Drainage Districts, and the Council on Aging. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Sheriff Road Patrol, Jail TRV, Revenue Sharing Reserve, Ambulance Funds, and TRV Capital Projects Fund each of which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General, and special revenue funds. A budgetary comparison schedule has been provided herein to demonstrate compliance with the County General Fund and all major Special Revenue Funds budgets.

Proprietary funds. The County maintains two types of proprietary funds. *Enterprise funds* report the same functions as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the Delinquent Tax Revolving Funds and the Treasurer's Unrestricted Fund which are considered to be major funds. Data from the other nonmajor enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The County maintains *internal service funds* to account for and allocate costs internally among the County's various functions. The County uses two (2) internal service funds to account for the following functions: County supplies and employee benefits. Because these services predominantly benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *other supplementary information*, including combining statements of the nonmajor governmental funds and internal service funds information.

Government-wide Financial Analysis

Statement of Net Assets

Lake County's Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current and other assets	\$ 6,480,200	\$ 7,070,473	\$ 3,267,138	\$ 3,909,195	\$ 9,747,338	\$ 10,979,668
Capital assets	9,436,475	13,584,240	1,396,497	750,515	10,832,972	14,334,755
Total assets	15,916,675	20,654,713	4,663,635	4,659,710	20,580,310	25,314,423
Liabilities						
Current	4,263,264	3,679,506	39,998	44,310	4,303,262	3,723,816
Non-current	6,727,045	10,926,773	-	-	6,727,045	10,926,773
Total liabilities	10,990,309	14,606,279	39,998	44,310	11,030,307	14,650,589
Net Assets						
Invested in capital assets – net of related debt	2,561,475	2,509,900	-	-	2,561,475	2,509,900
Restricted	1,783,115	2,782,672	-	-	1,783,115	2,782,672
Unrestricted	581,776	755,862	4,623,637	4,615,400	5,205,413	5,371,262
Total net assets	<u>\$ 4,926,366</u>	<u>\$ 6,048,434</u>	<u>\$ 4,623,637</u>	<u>\$ 4,615,400</u>	<u>\$ 9,550,003</u>	<u>\$ 10,663,834</u>

The County's net assets include \$2,509,900 in capital assets comprised of land, buildings, vehicles and equipment less any outstanding related debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Certain other limitations on the use of net assets apply due primarily to legal restrictions. These restricted net assets total \$2,782,672. The remaining balance of unrestricted net assets (\$5,371,262 or 50.4 percent) may be used to meet the government's ongoing obligations.

Statement of Activities

Lake County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenues						
Program revenue:						
Charges for services	\$ 1,390,737	\$ 1,252,053	\$ 654,147	\$ 618,139	\$ 2,044,884	\$ 1,870,192
Operating grants and contributions	3,603,432	4,026,309	-	-	3,603,432	4,026,309
General revenues:						
Property taxes	4,809,261	5,117,186	-	-	4,809,261	5,117,186
State Revenue Sharing	116,298	-	-	-	116,298	-0-
Investment earnings	43,070	16,503	48,203	62,864	91,273	79,367
Miscellaneous	216,799	95,308	-	-	216,799	95,308
Transfers	275,382	571,917	(275,382)	(571,917)	-0-	-0-
Total revenues	10,454,979	11,079,276	426,968	109,086	10,881,947	11,188,362
Expenses						
General government	2,605,831	2,811,142	-	-	2,605,831	2,811,142
Public safety	5,204,545	5,262,182	-	-	5,204,545	5,262,182
Health and welfare	1,196,612	1,426,061	-	-	1,196,612	1,426,061
Recreation and culture	-	400	-	-	-0-	400
Comm. and Econ. Development	9,685	4,768	-	-	9,685	4,768
Other	53,487	47,260	-	-	53,487	47,260
Interest on long-term debt	365,164	404,264	-	-	365,164	404,264
Delinquent tax collection and other						
Business-type activities	-	-	81,807	117,323	81,807	117,323
Total expenses	9,435,324	9,956,077	81,807	117,323	9,517,131	10,073,400
Change in net assets	1,019,655	1,123,199	345,161	(8,237)	1,364,816	1,114,962
Net assets, beginning of year	3,906,711	4,926,366	4,278,476	4,623,637	8,185,187	9,550,003
Prior period adjustment	-	(1,131)	-	-	-0-	(1,131)
Net assets, end of year	<u>\$ 4,926,366</u>	<u>\$ 6,048,434</u>	<u>\$ 4,623,637</u>	<u>\$ 4,615,400</u>	<u>\$ 9,550,003</u>	<u>\$ 10,663,834</u>

Governmental Activities

The preceding table shows that the net assets of governmental activities increased by approximately \$1.1 million or 22.8 percent during 2005 as compared to approximately \$1.0 million in the prior year.

Business-type Activities

Net assets of the County's business-type activities decreased \$8,237. Net assets of the Treasurer's Unrestricted fund and other nonmajor funds decreased \$294,230 while the Delinquent Tax fund increased \$285,993.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$3,585,223, an increase of \$1,147,705. Approximately 86.6 percent of this total amount (\$3,105,715) constitutes *unreserved/undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *reserved* to indicate that it is not available for new spending (\$478,571), or is *designated* to support other projects (\$937).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the total fund balance was \$417,407, while the unreserved/undesignated fund balance of the General Fund was \$416,470, an amount equal to 9.5 percent of total General Fund expenditures. This portion of General Fund unreserved/undesignated fund balance is consistent with standards issued by the Governmental Finance Officers Association.

The fund balance of the County's General Fund increased by \$252,473 during the current fiscal year. Actual General Fund revenues fell short of the amount budgeted by \$762,826. This under budget amount, coupled with total expenditures being under budget by \$1,015,299 left a total of \$252,473 at year-end. These budget variances were mainly a result of the accounting for the speeding up of tax revenues in the Revenue Sharing Reserve Fund instead of the General Fund.

The Sheriff Road Patrol Fund has a total fund balance of \$299,757, which increased by \$115,242 over the prior year. This increase reflected a \$43,565 difference in appropriated transfer out and the actual amount transferred to the Secondary Road Patrol. The remainder of the increase was caused by a \$39,670 increase in revenue over the final amended budget and a \$32,007 savings in current expenditures over appropriations.

The Jail TRV Fund has a fund deficit of \$390,405, which decreased by \$17,314 from the prior year deficit position. This decrease is mainly due to a \$38,989 short-fall in revenue and an attempt to cut costs to cover that shortfall.

The Revenue Sharing Reserve has a total fund balance of \$1,312,680. As indicated above this recently established fund, authorized by shifting forward the collection date for the County portion of the property tax levy from December to July, is intended to provide a reserve from which the County may draw amounts to replace revenues previously received from the now suspended State Revenue Sharing program. The current fund balance represents the second year phase-in that will ultimately provide deposits totaling approximately \$6.8 million to this fund. The balance in this fund is projected to be exhausted in year 2009 or 2010 at which time the County is to revert to an alternate State sponsored revenue source.

The Ambulance Fund has a total fund balance of \$563,074, which increased by \$165,053 over the prior year. This increase is mainly due to a \$167,065 difference in appropriated transfer out and the actual amounts transferred to the Equipment Replacement Fund.

General Fund Budgetary Highlights

Lake County's budget is a dynamic document. Although adopted in December (prior to the start of the year), the budget is frequently amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$4,617,143, \$762,826 below the final amended budget. Actual revenues varied from the final amended budget. There were some wide variations in individual revenue accounts reflecting the tightening national and local economy. The budgeted shortfall was created by Administrative charges for services being \$80,450 less than expected as well as a \$659,568 negative variance in Current and delinquent property taxes due to the tax revenue being reflected in the Revenue Sharing Reserve Fund and \$76,964 negative variance in District Court costs charges for services revenue. If these three categories would have come in at budget, the general fund would have exceeded the budgeted revenues by approximately \$50,000.

The original General Fund expenditure budget of \$5,260,843 was revised to \$5,379,969 for an increase of \$119,126 or 2.3 percent. A majority of the amendments were simply inflationary modifications in various activities to better align the budgetary figures once up-to-date data became available.

Actual County expenditures for 2005 were \$1,015,299 under budget. General fund actual expenditures came in at \$4,364,670 and the final amended budget was \$5,379,969, which was a 23.3% difference mainly due to how the activity between the General Fund and the Revenue Sharing Reserve Fund was accounted for in 2005.

Capital Asset and Debt Administration

Capital assets. As of December 31, 2005, the County's investment in capital assets, net of accumulated depreciation, for its governmental activities amounted to \$13,584,240. (These capital assets do not include those of the separately audited Road Commission component unit). This investment in capital assets includes land, construction in process, buildings and improvements, vehicles, machinery and equipment. The net increase in the County's investment in capital assets for the primary government in the current fiscal year amounted to \$4,386,281, less a net increase of \$238,516 in accumulated depreciation, for a net increase of \$4,147,765 or 44.0 percent.

County of Lake's Capital Assets (net of depreciation)

	<u>Primary Government</u>
Land and land improvements	\$ 3,372,988
Construction in process	991,297
Buildings and improvements	8,950,996
Furniture and equipment	64,779
Vehicles	<u>204,180</u>
Total	<u>\$13,584,240</u>

Long-term debt. At the end of the current year, the County Primary Government had total debt outstanding of \$11,238,918. (This amount does not include the debt of the separately audited Road Commission component unit). All of the bonds are backed by the County's full faith and credit.

County of Lake's Bonded Indebtedness

	<u>Primary Government</u>
General obligation bonds	\$11,074,340
Accrued sick and vacation	<u>164,578</u>
	<u>\$11,238,918</u>

New debt for the 2005 USDA Building Authority Bonds was issued during the current year totaling \$4,453,340 and \$254,000 in principal payments were made on the other bonded debt of the County during the year. There is significantly more information related to debt detailed in Note G. The County's outstanding general obligation debt is well under the current debt limitation of \$41,542,507 (10 percent of taxable valuation).

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's budget for the 2006 year:

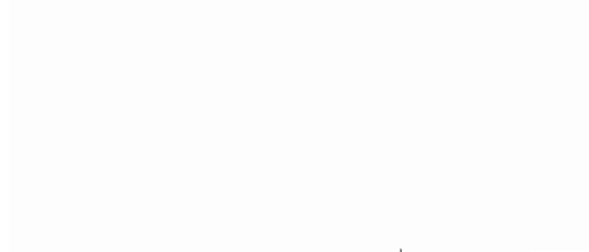
- The uncertainty over the State's economy will likely result in additional decreases in state funding.
- Healthcare costs will continue to escalate at a rate higher than inflation and require continued cost containment measures.
- The loss of State Share revenues
- Anticipated increase in revenues in the TRV Project fund
- Various predetermined labor union issues
- Combining of nonmandated positions to reduce budget short falls

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Lake County
800 Tenth Street, Suite 200
Baldwin, Michigan 49304

BASIC FINANCIAL STATEMENTS



Lake County, Michigan

STATEMENT OF NET ASSETS

December 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,343,963	\$ 3,258,528	\$ 4,602,491	\$ 1,302,038
Receivables				
Current taxes	3,581,873	-	3,581,873	276,465
Delinquent taxes	-	937,851	937,851	-
Accounts	2,000	-	2,000	559,980
Special assessments	-	-	-0-	2,788
Inventory	9,831	-	9,831	299,100
Internal balances	341,470	(341,470)	-0-	-
Due from other governmental units				
Federal/State	1,200,899	-	1,200,899	-
Local	65,109	54,286	119,395	-
Total current assets	6,545,145	3,909,195	10,454,340	2,440,371
Noncurrent assets				
Investments	525,328	750,515	1,275,843	-
Capital assets not being depreciated	4,316,097	-	4,316,097	78,534
Capital assets, net of accumulated depreciation	9,268,143	-	9,268,143	2,722,880
Total noncurrent assets	14,109,568	750,515	14,860,083	2,801,414
TOTAL ASSETS	20,654,713	4,659,710	25,314,423	5,241,785
LIABILITIES				
Current liabilities				
Accounts payable	133,254	10,374	143,628	59,790
Accrued liabilities	218,771	20,784	239,555	19,712
Accrued interest payable	71,241	-	71,241	-
Due to others	-	13,152	13,152	-
Due to other governmental units				
Federal/State	370,266	-	370,266	-
Current portion of compensated absences	41,145	-	41,145	32,287
Current portion of long-term debt	271,000	-	271,000	-
Deferred revenue	2,573,829	-	2,573,829	276,465
Total current liabilities	3,679,506	44,310	3,723,816	388,254
Non-current liabilities				
Compensated absences	123,433	-	123,433	175,662
Noncurrent portion of long-term debt	10,803,340	-	10,803,340	-
Total noncurrent liabilities	10,926,773	-0-	10,926,773	175,662
TOTAL LIABILITIES	14,606,279	44,310	14,650,589	563,916
NET ASSETS				
Invested in capital assets, net of related debt	2,509,900	-	2,509,900	2,801,414
Restricted for:				
Public safety	649,618	-	649,618	-
Other purposes	2,133,054	-	2,133,054	1,876,455
Unrestricted	755,862	4,615,400	5,371,262	-
TOTAL NET ASSETS	\$ 6,048,434	\$ 4,615,400	\$ 10,663,834	\$ 4,677,869

See accompanying notes to financial statements.

Lake County, Michigan

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Units
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities								
General government	\$ 2,811,142	\$ 211,414	\$ 1,144,317	\$ -	\$ (1,455,411)	\$ -	\$ (1,455,411)	\$ -
Public safety	5,262,182	788,004	2,279,651	-	(2,194,527)	-	(2,194,527)	-
Health and welfare	1,426,061	252,635	602,341	-	(571,085)	-	(571,085)	-
Recreation and cultural	400	-	-	-	(400)	-	(400)	-
Community and economic development	4,768	-	-	-	(4,768)	-	(4,768)	-
Other	47,260	-	-	-	(47,260)	-	(47,260)	-
Interest on long-term debt	404,264	-	-	-	(404,264)	-	(404,264)	-
Total governmental activities	9,956,077	1,252,053	4,026,309	-0-	(4,677,715)	-0-	(4,677,715)	-0-
Business-type activities:								
Treasurer's Unrestricted	10,441	3,232	-	-	-	(7,209)	(7,209)	-
Delinquents tax revolving	19,774	511,496	-	-	-	491,722	491,722	-
Other	87,108	103,411	-	-	-	16,303	16,303	-
Total business-type activities	117,323	618,139	-0-	-0-	-0-	500,816	500,816	-0-
Total primary government	\$ 10,073,400	\$ 1,870,192	\$ 4,026,309	\$ -0-	(4,677,715)	500,816	(4,176,899)	-0-
Component units:								
Road Commission	3,959,400	687,307	2,811,945	612,974	-	-	-	152,826
Council on Aging	225,691	-	-	-	-	-	-	(225,691)
Drainage Districts	-	-	-	2,769	-	-	-	2,769
Total component units	\$ 4,185,091	\$ 687,307	\$ 2,811,945	\$ 615,743	-0-	-0-	-0-	(70,096)
General revenues:								
Property taxes					5,117,186	-	5,117,186	266,595
Investment earnings					16,503	62,864	79,367	15,680
Miscellaneous					95,308	-	95,308	2,189
Transfers					571,917	(571,917)	-0-	-
Total general revenues and transfers					5,800,914	(509,053)	5,291,861	284,464
Change in net assets					1,123,199	(8,237)	1,114,962	214,368
Net assets, beginning of the year					4,926,366	4,623,637	9,550,003	4,463,501
Prior period adjustment					(1,131)	-	(1,131)	-
Net assets, end of the year					\$ 6,048,434	\$ 4,615,400	\$ 10,663,834	\$ 4,677,869

See accompanying notes to financial statements.

Lake County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2005

	General	Sheriff Road Patrol	Jail TRV
ASSETS			
Cash and cash equivalents	\$ 312,463	\$ 334,354	\$ (840,599)
Investments	25,000	-	-
Receivables			
Taxes			
Current	1,092,756	1,144,995	-
Accounts	-	-	-
Due from other funds	361,438	-	-
Due from other governmental units			
Federal/State	147,862	-	529,670
Local	54,388	-	-
TOTAL ASSETS	\$ 1,993,907	\$ 1,479,349	\$ (310,929)
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 54,208	\$ 11,595	\$ 46,891
Accrued liabilities	135,976	23,002	32,585
Due to other funds	494,412	-	-
Due to other governmental units			
Federal/State	-	-	-
Deferred revenue	891,904	1,144,995	-
TOTAL LIABILITIES	1,576,500	1,179,592	79,476
FUND BALANCES (DEFICITS):			
Reserved for Debt service	-	-	-
Unreserved			
Designated for:			
Other purposes	937	-	-
Undesignated, reported in:			
General Fund	416,470	-	-
Special revenue funds	-	299,757	(390,405)
Capital projects fund	-	-	-
TOTAL FUND BALANCES (DEFICITS)	417,407	299,757	(390,405)
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 1,993,907	\$ 1,479,349	\$ (310,929)

See accompanying notes to financial statements.

Revenue Sharing Reserve	Ambulance	TRV Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 567,374	\$ (18,496)	\$ 809,643	\$ 1,164,739
-	-	-	500,328	525,328
818,609	525,513	-	-	3,581,873
-	-	-	2,000	2,000
494,071	-	-	16,000	871,509
-	-	255,308	268,059	1,200,899
-	-	-	10,721	65,109
<u>\$ 1,312,680</u>	<u>\$ 1,092,887</u>	<u>\$ 236,812</u>	<u>\$ 1,606,751</u>	<u>\$ 7,411,457</u>
\$ -	\$ 4,300	\$ -	\$ 16,000	\$ 132,994
-	-	-	27,208	218,771
-	-	-	35,962	530,374
-	-	236,812	133,454	370,266
-	525,513	-	11,417	2,573,829
-0-	529,813	\$ 236,812	224,041	3,826,234
-	-	-	478,571	478,571
-	-	-	-	937
-	-	-	-	416,470
1,312,680	563,074	-	246,764	2,031,870
-	-	-	657,375	657,375
<u>1,312,680</u>	<u>563,074</u>	<u>-0-</u>	<u>1,382,710</u>	<u>3,585,223</u>
<u>\$ 1,312,680</u>	<u>\$ 1,092,887</u>	<u>\$ 236,812</u>	<u>\$ 1,606,751</u>	<u>\$ 7,411,457</u>

Lake County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2005

Total fund balance - governmental funds \$ 3,585,223

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 14,899,560	
Accumulated depreciation is	<u>(1,315,320)</u>	
Capital assets, net		13,584,240

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets

Net assets of governmental activities accounted for in Internal Service Funds		189,130
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct County obligations	\$ 11,074,340	
Accrued interest payable	71,241	
Compensated absences	<u>164,578</u>	
		<u>(11,310,159)</u>

Net assets of governmental activities \$ 6,048,434

See accompanying notes to financial statements.

Lake County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	General	Sheriff Road Patrol	Jail TRV
REVENUES			
Taxes	\$ 2,686,635	\$ 1,104,716	\$ -
Licenses and permits	11,142	-	-
Intergovernmental			
Federal/State	528,071	-	2,050,255
Charges for services	647,937	-	-
Fines and forfeits	7,642	-	-
Interest and rents	5,023	-	-
Other	124,964	5,905	44,821
TOTAL REVENUES	4,011,414	1,110,621	2,095,076
EXPENDITURES			
Current			
General government	2,491,183	-	-
Public safety	1,321,127	869,004	1,780,437
Community and economic development	2,735	-	-
Health and welfare	234,322	-	-
Other	47,260	-	-
Capital outlay	16,405	61,210	19,753
Debt service	-	-	-
TOTAL EXPENDITURES	4,113,032	930,214	1,800,190
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(101,618)	180,407	294,886
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	605,729	-	186,713
Transfers out	(251,638)	(65,165)	(498,913)
TOTAL OTHER FINANCING SOURCES (USES)	354,091	(65,165)	(312,200)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	252,473	115,242	(17,314)
Fund balances (deficits), beginning of year	164,934	184,515	(373,091)
Prior period adjustment	-	-	-
Fund balances (deficits), end of year	\$ 417,407	\$ 299,757	\$ (390,405)

See accompanying notes to financial statements.

Revenue Sharing Reserve	Ambulance	TRV Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 818,609	\$ 507,227	\$ -	\$ -	\$ 5,117,187
-	-	-	-	11,142
-	-	-	941,411	3,519,737
-	-	-	713,864	1,361,801
-	-	-	-	7,642
-	925	1,724	242,042	249,714
-	-	-	64,446	240,136
818,609	508,152	1,724	1,961,763	10,507,359
-	-	-	252,138	2,743,321
-	-	106,027	1,037,359	5,113,954
-	-	-	-	2,735
-	293,099	-	893,330	1,420,751
-	-	-	-	47,260
-	-	4,291,297	6,456	4,395,121
-	-	62,120	598,518	660,638
-0-	293,099	4,459,444	2,787,801	14,383,780
818,609	215,053	(4,457,720)	(826,038)	(3,876,421)
-	-	4,453,340	-	4,453,340
-	-	62,120	1,140,858	1,995,420
(197,468)	(50,000)	-	(360,319)	(1,423,503)
(197,468)	(50,000)	4,515,460	780,539	5,025,257
621,141	165,053	57,740	(45,499)	1,148,836
691,539	398,021	(57,740)	1,429,340	2,437,518
-	-	-	(1,131)	(1,131)
\$ 1,312,680	\$ 563,074	\$ -0-	\$ 1,382,710	\$ 3,585,223

Lake County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Net change in fund balances - total governmental funds **\$ 1,148,836**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 4,386,281	
Depreciation expense	<u>(238,516)</u>	
Excess of depreciation expense over capital outlay		4,147,765

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	46,748
--	--------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Loan principal retirement	\$ 254,000	
Bond proceeds	(4,453,340)	
Decrease in accrued interest payable	2,374	
(Increase) in accrued compensated absences	<u>(23,184)</u>	
		<u>(4,220,150)</u>

Change in net assets of governmental activities **\$ 1,123,199**

See accompanying notes to financial statements.

Lake County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2005

	Business-type Activities			
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,295,899	\$ 1,956,166	\$ 6,463	\$ 3,258,528
Accounts receivable	-	-	-	-0-
Delinquent taxes receivable	33,350	904,501	-	937,851
Inventory	-	-	-	-0-
Due from other funds	35,962	100	-	36,062
Due from other governmental units				
Local	40,225	14,061	-	54,286
Total current assets	1,405,436	2,874,828	6,463	4,286,727
Noncurrent assets				
Investments	347,138	403,377	-	750,515
TOTAL ASSETS	1,752,574	3,278,205	6,463	5,037,242
LIABILITIES				
Current liabilities				
Accounts payable	6,884	-	3,490	10,374
Accrued liabilities	17,222	3,562	-	20,784
Due to others	523	12,629	-	13,152
Due to other funds	377,532	-	-	377,532
TOTAL LIABILITIES	402,161	16,191	3,490	421,842
NET ASSETS				
Restricted for employee benefits	-	-	-	-0-
Unrestricted	1,350,413	3,262,014	2,973	4,615,400
TOTAL NET ASSETS	\$ 1,350,413	\$ 3,262,014	\$ 2,973	\$ 4,615,400

See accompanying notes to financial statements.

Governmental
Activities

Internal
Service
Funds

\$	179,224
	-
	-
	9,831
	341
	-
	189,396
	-
	189,396
	260
	-
	-
	6
	266
	186,561
	2,569
\$	189,130

Lake County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2005

	Business-type Activities			
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total
OPERATING REVENUES				
Charges for services	\$ 1,229	\$ 238,818	\$ 103,411	\$ 343,458
Interest and penalties on taxes	2,003	272,678	-	274,681
TOTAL OPERATING REVENUES	3,232	511,496	103,411	618,139
OPERATING EXPENSES				
Other	10,441	19,774	87,108	117,323
OPERATING INCOME (LOSS)	(7,209)	491,722	16,303	500,816
NONOPERATING REVENUES				
Interest revenue	29,398	33,457	9	62,864
INCOME BEFORE TRANSFERS	22,189	525,179	16,312	563,680
TRANSFERS IN (OUT)				
Transfer in	239,186	-	-	239,186
Transfers out	(534,432)	(239,186)	(37,485)	(811,103)
TOTAL TRANSFERS IN (OUT)	(295,246)	(239,186)	(37,485)	(571,917)
CHANGE IN NET ASSETS	(273,057)	285,993	(21,173)	(8,237)
Net assets, beginning of year	1,623,470	2,976,021	24,146	4,623,637
Net assets, end of year	\$ 1,350,413	\$ 3,262,014	\$ 2,973	\$ 4,615,400

See accompanying notes to financial statements.

Governmental
Activities

Internal
Service
Funds

\$ 1,754,274

-

1,754,274

1,707,526

46,748

-

46,748

-

-

-0-

46,748

142,382

\$ 189,130

Lake County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

	Business-type Activities			Total
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 17,283	\$ 441,624	\$ 121,411	\$ 580,318
Cash paid to suppliers	(5,695)	(18,137)	(89,179)	(113,011)
Cash received from/(paid to) other funds - net	498,570	(100)	-	498,470
Cash receipts from local units	33,428	(8,842)	-	24,586
NET CASH PROVIDED BY OPERATING ACTIVITIES	543,586	414,545	32,232	990,363
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	239,186	-	-	239,186
Transfers out	(534,432)	(239,186)	(37,485)	(811,103)
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	(295,246)	(239,186)	(37,485)	(571,917)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(10,217)	-	-	(10,217)
Maturity of investments	-	620,237	-	620,237
Interest revenue	29,398	33,457	9	62,864
NET CASH PROVIDED BY INVESTING ACTIVITIES	19,181	653,694	9	672,884
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	267,521	829,053	(5,244)	1,091,330
Cash and cash equivalents, beginning of year	1,028,378	1,127,113	11,707	2,167,198
Cash and cash equivalents, end of year	<u>\$ 1,295,899</u>	<u>\$ 1,956,166</u>	<u>\$ 6,463</u>	<u>\$ 3,258,528</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ (7,209)	\$ 491,722	\$ 16,303	\$ 500,816
Adjustments to reconcile operating income to net cash provided by operating activities				
(Increase) decrease in receivables	(21,911)	(69,872)	18,000	(73,783)
(Increase) in inventory	-	-	-	-0-
(Increase) decrease in due from other funds	129,038	(2,210,415)	-	(2,081,377)
(Increase) decrease in due from local units	33,428	(8,842)	-	24,586
Decrease in advances	35,962	-	-	35,962
(Decrease) in accounts payable	(3,244)	-	(2,071)	(5,315)
Increase (decrease) in accrued liabilities	7,985	(2,607)	-	5,378
Increase in due to others	5	4,244	-	4,249
Increase in due to other funds	369,532	2,210,315	-	2,579,847
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 543,586	\$ 414,545	\$ 32,232	\$ 990,363

See accompanying notes to financial statements.

Governmental
Activities

Internal
Service
Funds

\$ 1,753,312
(20,550)
(1,709,674)

-

23,088

-

-

-0-

-

-

-

-0-

23,088

156,136

\$ 179,224

\$ 46,748

-

(962)

-

-

-

(22,698)

-

-

-

\$ 23,088

Lake County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,579,590
Due from governmental units - State	<u>108,947</u>
TOTAL ASSETS	<u><u>\$ 2,688,537</u></u>
LIABILITIES	
Undistributed collections payable	\$ 535,798
Deposits payable	8,747
Due to other governmental units	
Federal/State	2,007,017
Local	108,167
Due to others	<u>28,808</u>
TOTAL LIABILITIES	<u><u>\$ 2,688,537</u></u>

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2005

	Road Commission	Council on Aging	Drainage Districts	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,178,643	\$ 118,335	\$ 5,060	\$ 1,302,038
Accounts receivable				
State trunkline maintenance	89,406	-	-	89,406
Due on county road agreements	41,737	-	-	41,737
Motor vehicle highway funds	428,837	-	-	428,837
Taxes receivable	-	276,465	-	276,465
Special assessments receivable	-	-	2,788	2,788
Inventories				
Equipment material and parts	40,830	-	-	40,830
Road materials	258,270	-	-	258,270
Total current assets	2,037,723	394,800	7,848	2,440,371
Noncurrent assets				
Capital assets not being depreciated	78,534	-	-	78,534
Capital assets, net of accumulated depreciation	2,722,880	-	-	2,722,880
Total noncurrent assets	2,801,414	-0-	-0-	2,801,414
TOTAL ASSETS	4,839,137	394,800	7,848	5,241,785
LIABILITIES				
Current liabilities				
Accounts payable	52,896	6,894	-	59,790
Accrued liabilities	19,712	-	-	19,712
Deferred revenue	-	276,465	-	276,465
Current portion of compensated absences	32,287	-	-	32,287
Total current liabilities	104,895	283,359	-0-	388,254
Noncurrent liabilities				
Compensated absences	175,662	-	-	175,662
TOTAL LIABILITIES	280,557	283,359	-0-	563,916
NET ASSETS				
Invested in capital assets	2,801,414	-	-	2,801,414
Restricted for other purposes	1,757,166	111,441	7,848	1,876,455
TOTAL NET ASSETS	\$ 4,558,580	\$ 111,441	\$ 7,848	\$ 4,677,869

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Drainage Districts	\$ -	\$ -	\$ -	\$ 2,769	\$ 2,769
Council on Aging	225,691	-	-	-	(225,691)
Road Commission	3,959,400	687,307	2,811,945	612,974	152,826
TOTALS	\$ 4,185,091	\$ 687,307	\$ 2,811,945	\$ 615,743	(70,096)
General revenues					
Taxes					266,595
Investment earnings					15,680
Miscellaneous					2,189
Total general revenues and transfers					284,464
CHANGE IN NET ASSETS					214,368
Net assets, beginning of year					4,463,501
Net assets, end of year					<u>\$ 4,677,869</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Lake, Michigan was organized in 1872 and covers an area of approximately 572 square miles with the County seat located in the Village of Baldwin, Michigan. The County operates under an elected Board of Commissioners of seven (7) members and provides services to its approximately 8,500 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture. Education is provided to citizens through three (3) local School Districts, four (4) Intermediate School Districts, and a Community College located in the County. The School Districts and College are separate governmental entities whose financial statements are not included herein in accordance with the National Council on Governmental Accounting (NCGA) Statement 3.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Lake County (primary government) and its component units. The component units described in Sections 2 and 3 below are included in the County's reporting entity because of the significance of their operational or financial relationship with the County.

2. Blended Component Units

The Lake County Building Authority is governed by a five (5) member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Lake County Building Authority is reported as if it were part of the (blended) primary government because its sole purpose is to finance and construct the County's public buildings.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Lake County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Lake County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Lake County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) Board Members of the Road Commission are elected. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Lake County Council on Aging is governed by 19 appointees from various local aging assistance agencies. One of the members is from the Lake County Board of Commissioners. The Council on Aging is a nonprofit corporation dedicated to identifying the needs of seniors of the County and establishing long and short range goals to address those needs. The County Treasurer acts as a fiscal agent of all funds generated by a special millage and handles all financial aspects of the Council. The Lake County Council on Aging was not audited separately.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Lake County Drainage Districts come under the jurisdiction of the Lake County Road Commissioner due to the fact Lake County does not have a Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Road Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Road Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County. The Lake County Drainage Districts have not been audited separately.

4. Joint Ventures

The District 10 Health Department is a joint venture between 10 counties as detailed in the formation agreement between the counties, and was established to provide public health services to the 10 county regions. A copy of the agreement can be obtained at the County's clerk's office. Lake County appoints two (2) of the 20 members. All ten (10) Counties provide annual appropriations and pass-through the statutory amount of cigarette tax funding to subsidize operations. Lake County's contribution for the year ended December 31, 2005, was \$90,390.

5. Jointly Governed Organizations

The West Michigan Community Mental Health System provides comprehensive mental health services to Lake, Mason, and Oceana Counties. Operating revenues are derived from Federal, State, and local governments as well as from fees for services. The West Michigan Community Mental Health System is governed by a twelve (12) member Board appointed by the Board of Commissioners of the three (3) Counties it services. Lake County appropriated \$55,250 as its operating contribution to the West Michigan Community Mental Health System for the year ended December 31, 2005. A copy of their audit may be obtained at their administrative offices.

The West Michigan Area Agency on Aging provides comprehensive services to older individuals residing in ten (10) west Michigan counties. Operating revenues are derived from Federal, State, and local governments as well as fees for services. The West Michigan Area Agency on Aging is governed by a twenty (20) member Board appointed by the Board of Commissioners of the ten (10) Counties it services. A copy of the Area Agency on Aging audit may be obtained at their administrative offices.

Lake County, in conjunction with twenty-two (22) other Counties, has entered into an agreement that created the Northern Michigan Substance Abuse Commission. This organization's Board is composed of thirty-six (36) members, of which one (1) is appointed by Lake County. The County's financial responsibility is to pass through a portion of the Convention and Tourism revenues received to the Commission. For the year ended December 31, 2005, the County passed through \$30,120.

Five CAP, Inc. is a non-profit corporation formed under the laws of the State of Michigan. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Lake County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to appropriate use of the Federal funds passed through to Five CAP, Inc. The County passed through to Five CAP, Inc. as a subrecipient \$305,699 in Federal grant dollars.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sheriff's Road Patrol Fund is used to report road patrol services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the system.
- c. The Revenue Sharing Reserve Fund was established in 2004 to account for the shift of State Revenue Sharing dollars from State to local funding.
- d. The Jail TRV Fund is used to report jail services that are financed primarily by Federal and State grants and expenditures within the fund all to be used for the operation of the system.
- e. The Ambulance Fund is used to report ambulance services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the ambulance system.
- f. The TRV Capital Projects Fund is used to account for the construction of the TRV facility.
- g. The Delinquent Tax Revolving Funds account for money advanced by the County to other local taxing units and various county funds to pay for their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.
- h. The Treasurer's Unrestricted Fund accounts for interest collected on delinquent taxes and funds are subsequently relinquished to the proper authority.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

8. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

9. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit and mutual funds with a maturity from date of purchase of 90 days or less.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Investments

Investments consist of certificates of deposit and U.S. Treasury bonds with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

11. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

12. Inventories

Inventories of the Central Stores (Internal Service) Fund consist of miscellaneous office supplies on hand for resale, which are stated at the lower of first-in, first-out cost or market.

Inventories of the Road Commission (Component Unit) consist of various operating parts, supplies, and road material and are stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

13. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 - 30 years
Buildings and improvements	10 - 50 years
Equipment	5 - 15 years
Vehicles	5 years

COMPONENT UNIT - ROAD COMMISSION

Capital assets which include property, equipment, and infrastructure assets (road, bridges, and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Capital Assets - continued

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the Road Commission.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals, and similar items) in 2004 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended December 31, 2005.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure follows:

Buildings	30 - 50 years
Road equipment	5 - 8 years
Shop equipment	10 years
Office equipment	4 - 10 years
Engineering equipment	4 - 10 years
Infrastructure - bridges	12 - 50 years
Infrastructure - roads	5 - 30 years
Infrastructure - traffic signals	15 years

14. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Advances to Other Funds

Long-term advances from certain funds to other funds or component units are made to finance new activities during their initial operations and to finance capital acquisitions. For the governmental fund types, fund balance is reserved for the amount of advances made to other funds to reflect the fund balance not currently available for expenditure.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

17. Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of December 31, 2005, including related payroll taxes, is recorded in the government-wide financial statements.

18. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results. The County employs the following procedures in establishing the primary government budgetary data reflected in the financial statements.

Public Act 493 of 2000 amended certain budgeting related sections of the Uniform Budgeting and Accounting Act and was given immediate effect. The amendments included the rescission of the requirement for reporting debt service fund budgets in the financial statements. As a result, the Debt Service Funds' budgets are no longer included in the financial statements.

- a. Prior to October 1, County departments in conjunction with the Clerk's Office, prepare and submit their proposed operating budgets to the Ways and Means Committee who reviews and makes recommendations for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of a budget resolution.
- d. The budgets are legally adopted at the activity, functional, and account level for the General Fund and the fund level for the Special Revenue Funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all fund budgets are maintained at the activity and account level. The Clerk is authorized to transfer budget amounts between accounts without Board approval.
- e. Budgets for certain Capital Projects Funds are made on a project basis spanning more than one year.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Budgets and Budgetary Accounting - continued

- f. The County does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- g. Budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material to the original appropriations that were adopted.

19. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

20. Federal Programs

Federal Programs are accounted for in specific Special Revenue Funds or as part of the various fund types to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit Reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately thirty-four funds. Cash overdrafts of individual funds as of December 31, 2005, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
General Fund	\$(360,456)	\$ 672,919	\$ 312,463
Special Revenue Funds			
Pleasant Plains Officer	(107)	-	(107)
Yates Township Officer	(10,128)	-	(10,128)
Crime Victims	(7,686)	-	(7,686)
Emergency 911	(217,510)	-	(217,510)
TRV	(840,599)	-	(840,599)
Friend of the Court	(4,973)	-	(4,973)
Law Library	(11,847)	-	(11,847)
Secondary Road Patrol	(9,766)	2,000	(7,766)
Child Care Probate	(233,685)	14,325	(219,360)
Capital Projects Fund			
TRV Capital Projects	(19,686)	1,190	(18,496)
Internal Service Fund			
Central Stores	(7,343)	-	(7,343)
TOTAL REPORTING ENTITY	<u>\$(1,723,786)</u>	<u>\$ 690,434</u>	<u>\$(1,033,352)</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately forty funds. The County's pooled cash accounts consist of a common checking account and mutual funds.

The County's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Internal Service Funds, (except for the Delinquent Tax Revolving Funds), Trust and Agency Funds, and the component unit funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are held separately by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of December 31, 2005, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 3,406,451	\$ 2,649,828
Savings	3,441	4,116
Money market	1,152,091	1,163,344
Certificates of deposit	<u>785,516</u>	<u>787,332</u>
Total primary government	5,347,499	4,604,620

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
COMPONENT UNITS		
Checking	\$ 1,243,315	\$ 1,220,718
Certificate of deposit	<u>58,623</u>	<u>58,623</u>
Total component units	1,301,938	1,279,341
FIDUCIARY FUNDS		
Checking	<u>2,579,590</u>	<u>3,427,437</u>
TOTAL REPORTING ENTITY	<u>\$ 9,229,027</u>	<u>\$ 9,311,398</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2005, the primary government and component unit accounts were insured by the FDIC for \$404,116 and the amount of \$8,907,282 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of December 31, 2005, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's/ S & P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Insured or registered for which the securities are held by the County's agent in the County's name -				
U.S. Treasury Bonds	\$ 305,577	\$ 305,577	AAA	1-3 years
U.S. Treasury Bonds	184,751	184,751	AAA	1-7 years
Public Funds Investments Trust	<u>38,631</u>	<u>38,631</u>	AAAm	29 days
	<u>\$ 528,959</u>	<u>\$ 528,959</u>		

The investments of U.S. Treasury Securities are not insured, but are backed by the full faith and credit of the Federal Government.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2005, rating information on the County's investments is presented above.

Interest rate risk

The County has not adopted a policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

The County has not adopted a policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2005:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,602,491	\$ 1,302,038	\$ 2,579,590	\$ 8,484,119
Investments	<u>1,275,843</u>	<u>-</u>	<u>-</u>	<u>1,275,843</u>
	<u>\$ 5,878,334</u>	<u>\$ 1,302,038</u>	<u>\$ 2,579,590</u>	<u>\$ 9,759,962</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$1,876 in imprest cash and the component units have \$100 of imprest cash.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2005:

Due to General Fund from:	
Treasurer's Unrestricted Fund	\$ 361,432
Internal service funds	<u>6</u>
	<u>\$ 361,438</u>
Due to Treasurer's Unrestricted Fund from:	
Nonmajor governmental funds	<u>\$ 35,962</u>
Due to Delinquent Tax Revolving Fund from:	
Treasurer's Unrestricted Fund	<u>\$ 100</u>
Due to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 494,071</u>
Due to internal service funds from:	
General Fund	<u>\$ 341</u>
Due to nonmajor governmental funds from:	
Treasurer's Unrestricted Fund	<u>\$ 16,000</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Fund	\$ 197,468
Sheriff Road Patrol Fund	3,463
Jail TRV Fund	30,000
Treasurer's Unrestricted Fund	361,432
Nonmajor enterprise funds	<u>13,366</u>
	<u>\$ 605,729</u>
Transfers to Treasurer's Unrestricted Fund from:	
Delinquent Tax Revolving Fund	<u>\$ 239,186</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 251,638
Sheriff Road Patrol Fund	61,702
Ambulance Fund	50,000
Nonmajor governmental funds	197,725
Treasurer's Unrestricted Fund	173,000
Jail TRV Fund	<u>406,793</u>
	<u>\$ 1,140,858</u>
Transfer to TRV Capital Projects Fund from:	
Jail TRV	<u>\$ 62,120</u>
Transfer to Jail TRV from:	
Nonmajor enterprise funds	\$ 24,119
Nonmajor governmental funds	<u>162,594</u>
	<u>\$ 186,713</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

PRIMARY GOVERNMENT

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Governmental activities				
Capital assets not being depreciated				
Land	\$ 24,800	\$ 3,300,000	\$ -	\$ 3,324,800
Construction in progress	<u>-</u>	<u>991,297</u>	<u>-</u>	<u>991,297</u>
Total capital assets not being depreciated	24,800	4,291,297	-0-	4,316,097

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Governmental activities - continued				
Capital assets being depreciated				
Land improvements	\$ 98,002	\$ -	\$ -	\$ 98,002
Buildings and improvements	9,175,588	-	-	9,175,588
Furniture and equipment	700,122	24,838	-	724,960
Vehicles	<u>514,767</u>	<u>70,146</u>	<u>-</u>	<u>584,913</u>
Subtotal at historical cost	10,488,479	94,984	-0-	10,583,463
Less accumulated depreciation for:				
Land improvements	(41,189)	(8,625)	-	(49,814)
Buildings and improvements	(216,917)	(7,675)	-	(224,592)
Furniture and equipment	(540,918)	(119,263)	-	(660,181)
Vehicles	<u>(277,780)</u>	<u>(102,953)</u>	<u>-</u>	<u>(380,733)</u>
Subtotal at historical cost	<u>(1,076,804)</u>	<u>(238,516)</u>	<u>-0-</u>	<u>(1,315,320)</u>
Net capital assets being depreciated	<u>9,411,675</u>	<u>(143,532)</u>	<u>-0-</u>	<u>9,268,143</u>
Capital assets, net	<u>\$ 9,436,475</u>	<u>\$ 4,147,765</u>	<u>\$ -0-</u>	<u>\$ 13,584,240</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 82,545
Public safety	148,228
Health and welfare	5,310
Recreation and cultural	400
Community and economic development	<u>2,033</u>
Total depreciation expense	<u>\$ 238,516</u>

COMPONENT UNITS

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Component Unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 48,825	\$ -	\$ -	\$ 48,825
Depletable assets	<u>29,709</u>	<u>-</u>	<u>-</u>	<u>29,709</u>
Subtotal at historical cost	78,534	-0-	-0-	78,534
Capital assets being depreciated:				
Buildings	1,355,595	7,585	-	1,363,180
Road equipment	3,976,503	208,176	-	4,184,679
Shop equipment	133,943	-	-	133,943
Engineering equipment	27,167	-	-	27,167
Yard and storage equipment	142,200	-	-	142,200
Office equipment	81,194	1,000	-	82,194
Infrastructure - roads	<u>917,634</u>	<u>448,429</u>	<u>-</u>	<u>1,366,063</u>
Subtotal at historical cost	6,634,236	665,190	-0-	7,299,426

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS - CONTINUED

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Component Unit - Road Commission - continued				
Less accumulated depreciation for:				
Buildings	\$(449,747)	\$(27,851)	\$ -	\$(477,598)
Road equipment	(3,163,141)	(340,484)	-	(3,503,625)
Shop equipment	(97,965)	(4,577)	-	(102,542)
Engineering equipment	(19,414)	(1,064)	-	(20,478)
Yard and storage equipment	(97,403)	(12,826)	-	(110,229)
Office equipment	(71,351)	(1,051)	-	(72,402)
Infrastructure - roads	(127,902)	(161,770)	-	(289,672)
Subtotal at historical cost	(4,026,923)	(549,623)	-0-	(4,576,546)
Net capital assets being depreciated	2,607,313	115,567	-0-	2,722,880
Capital assets, net	\$ 2,685,847	\$ 115,567	\$ -0-	\$ 2,801,414

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended December 31, 2005:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
1991 Building Authority Bonds	\$ 1,065,000	\$ -	\$ 120,000	\$ 945,000	\$ 130,000
1998 Building Authority Bonds	5,810,000	-	134,000	5,676,000	141,000
2005 USDA Building Authority Bonds	-	4,453,340	-	4,453,340	-
Accrued sick and vacation	141,394	23,184	-	164,578	41,145
TOTAL PRIMARY GOVERNMENT	7,016,394	4,476,524	254,000	11,238,918	312,145
COMPONENT UNITS					
Road Commission					
Accumulated compensated absences	213,759	-	5,810	207,949	32,287
TOTAL REPORTING ENTITY	\$ 7,230,153	\$ 4,476,524	\$ 259,810	\$11,446,867	\$ 344,432

PRIMARY GOVERNMENT

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Lake County is party to three (3) long-term lease agreements for rental of State of Michigan Family Independence Agency building, the Courthouse, and Jail from the Lake County Building Authority. These lease agreements stipulate that annual rentals will be paid by the County and the State government to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired on these buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Bonds payable at December 31, 2005 are as follows:

\$2,000,000 Lake County Building Authority Bonds Series 1991, dated January 1, 1991 due in annual installments ranging from \$130,000 to \$190,000 through October 1, 2011, with interest of 7.0 percent, payable semi-annually.	\$ 945,000
\$6,500,000 Lake County Building Authority Bonds; Series 1998, Bond No. 1, 2, and 3, dated June 30, 1998; due in annual installments ranging from \$141,000 to \$396,000 through June 1, 2028; with interest of 4.75 percent, payable semi-annually.	5,676,000
\$4,453,340 2005 USDA Building Authority Bonds dated June 30, 2005 maturity of which is not yet known. The County draws on the bonds as project expenditures are submitted. At project completion a maturity schedule will be set. Due to the unknown maturity schedule, it is not possible to anticipate the amount of principal and interest that will be due each year.	<u>4,453,340</u>
	<u>\$11,074,340</u>

Accumulated Vacation and Sick

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights, including related payroll taxes, amounted to \$164,578 at December 31, 2005.

The annual requirements to pay the long-term debt principal and interest outstanding for the following bonds of the primary government at December 31, 2005 are as follows:

Primary Government

Year Ending December 31,	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 271,000	\$ 335,760
2007	288,000	319,963
2008	305,000	303,133
2009	323,000	285,270
2010	345,000	266,328
2011-2015	1,171,000	1,087,798
2016-2020	1,235,000	818,615
2021-2025	1,559,000	496,090
2026-2028	<u>1,124,000</u>	<u>108,490</u>
	<u>\$ 6,621,000</u>	<u>\$ 4,021,447</u>

The \$4,453,340 related to the 2005 USDA Building Authority Bonds is not included in the above schedule because the bonds have not been fully drawn down and as a result the maturity schedule is unknown at December 31, 2005.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: EMPLOYEE RETIREMENT SYSTEM

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service

Age 55 with 15 or more years of credited service

Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2005 the County's annual pension cost of \$322,529 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 3,787,174	\$ 4,207,303	\$ 4,662,926
Actuarial accrued liability (AAL) (entry age)	4,613,310	5,167,418	5,657,842
Unfunded AAL	826,136	960,115	994,916
Funded ratio	82%	81%	82%
Covered payroll	3,053,787	3,161,760	3,237,940
UAAL as a percentage of covered payroll	27%	30%	31%
Annual pension cost	285,258	311,726	322,529
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

COMPONENT UNIT - ROAD COMMISSION

Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 14.24% of annual covered payroll. The Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$205,693 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Three Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2003	\$ 173,049	100 %	-
12/31/2004	188,444	100	-
12/31/2005	205,693	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2002	\$ 4,412,215	\$ 6,169,036	\$ 1,753,821	72 %	\$ 1,185,945	148 %
12/31/2003	4,627,401	6,392,274	1,764,873	72	1,219,313	145
12/31/2004	4,854,999	6,781,539	1,926,540	72	1,180,521	163

NOTE I: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal programs and the periodic program compliance audits of many of the State programs have not yet been conducted, completed, or resolved. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the County and its component units. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by County and/or component unit management and legal counsel to be immaterial.

NOTE J: RISK MANAGEMENT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE J: RISK MANAGEMENT - CONTINUED**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED**

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Lake County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Maximum Retention</u> <u>Type of Risk</u>	<u>Per Occurrence</u>
General and auto liability	\$ 75,000
Motor vehicle physical damage	30,000
Property and crime coverage	100,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expensed as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred, but not reported, claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Lake County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess.

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$121,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$121,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Lake County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$121,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$121,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Lake County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE J: RISK MANAGEMENT - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

At December 31, 2005, the County had funds on deposit of \$88,507 with the Authority. In 2005, the County had \$55,437 in reported claims.

The County also participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The County has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

COMPONENT UNIT - ROAD COMMISSION

Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of road, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

NOTE K: PROPERTY TAXES AND TAX RECEIVABLE

The County property tax is levied each December 1 on the taxable valuation of property located in the County as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February.

Although the County's 2005 ad valorem tax is levied and collectible by December 31, 2005, it is the County's policy for all governmental fund types (with the exception noted below) to recognize revenues from the current tax levy in the year when the proceeds of the levy are budgeted and made available for financing County operations.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy will be shifting over the next three years from winter to summer.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Real and personal property in Lake County for the 2005 levy had a taxable value of \$415,425,069 on which ad valorem taxes levied for County general operating purposes was 6.1762 mills. The Ambulance, Council on Aging, and Sheriff Road Patrol Funds levied 1.2650, 0.6655, and 2.7562 mills, respectively.

Taxes are collected by the various tax collecting units from the date of the levy and remitted to the County through the Trust and Agency Fund for distribution to the General, Special Revenue, and Component Unit Funds. The property tax levied December 1 is accrued as current tax receivable with the appropriate deferral, and is budgeted as revenue in the subsequent year in the General; Ambulance and Sheriff Road Patrol (Special Revenue); and the Council on Aging (Component Unit) Fund.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE K: PROPERTY TAXES AND TAX RECEIVABLE - CONTINUED

Taxes receivable recorded in the respective funds at December 31, 2005, are as follows:

Taxes Receivable	General	Special Revenue			Component Unit	Enterprise		Totals
		Revenue Sharing Reserve	Sheriff Road Patrol	Ambulance	Council on Aging	Delinquent Tax Revolving Funds	Treasurer's Unrestricted	
Current	\$ 1,092,756	\$ 818,609	\$ 1,144,995	\$ 525,513	\$ 276,465	\$ -	\$ -	\$ 3,858,338
Delinquent	-	-	-	-	-	904,501	33,350	937,851
	<u>\$ 1,092,756</u>	<u>\$ 818,609</u>	<u>\$ 1,144,995</u>	<u>\$ 525,513</u>	<u>\$ 276,465</u>	<u>\$ 904,501</u>	<u>\$ 33,350</u>	<u>\$ 4,796,189</u>

The delinquent taxes receivable represents unpaid real property taxes in the Enterprise Funds.

By agreement with the various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent tax receivable.

These receivables are pledged to a bank for the payment of the notes payable, the proceeds of which were used to liquidate the amounts owed to the General and Special Revenue Funds and other taxing authorities. Subsequent collection on the delinquent taxes receivable, plus interest and administration fees thereon, and investment earnings are used to service the notes payable.

Any real property taxes not collected are charged back to the General and Special Revenue Funds and all other taxing authorities affected. Past experience has indicated that such chargebacks should not be material and, as a result there has been no establishment of an amount for uncollectible taxes receivable in any of the funds. This activity is accounted for in the Delinquent Tax Revolving Funds.

NOTE L: FUND DEFICITS

The following funds had a fund equity deficit at December 31, 2005:

	Deficit
PRIMARY GOVERNMENT	
Special Revenue Funds	
Child Care Probate	\$ 205,814
Jail TRV	390,405
Emergency 911	219,544

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance and net assets indicates that portion of fund balance and net assets that the County has set aside for specific purposes.

The following are the various fund balance reserves as of December 31, 2005:

PRIMARY GOVERNMENT	
Debt Service Funds	
Building Authority	
Reserved for bond principal and interest redemption	<u>\$ 478,571</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS - CONTINUED

The following are the various fund balance designations as of December 31, 2005:

PRIMARY GOVERNMENT

Designated for other purposes

General Fund

Designated for K-9 expenditures

\$ 937

The County has recorded various reserves of net assets in the proprietary funds that reflect management's plans for use of those funds. Since reserves are not appropriate for presentation on the face of the applicable statements of net assets, the reserves are listed here.

The following is the net asset reserve as of December 31, 2005:

Internal Service Funds

Reserved for employee benefits

\$ 186,561**NOTE N: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2005:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Public safety

K-9 Expenditures

\$ 937

Sheriff Road Patrol

299,757

E911 Wireless Service

303,804

Drug Law Enforcement

15,634

D.A.R.E. Program

12,168

Secondary Road Patrol

10,264

Criminal Justice Training

1,990

Local Officers Training

5,064\$ 649,618

Other purposes

Employee Benefits

\$ 186,561

Revenue Sharing

1,312,680

Ambulance

563,074

Register of Deeds Automation

34,041

Crime Victims

9,363

Law Library

5,380

Circuit Court Marriage Council

21,955\$ 2,133,054

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE N: RESTRICTED NET ASSETS - CONTINUED

COMPONENT UNITS

Other purposes	
Restricted for	
County Roads	\$ 1,757,166
Aging Programs	111,441
Drainage Projects	<u>7,848</u>
	<u>\$ 1,876,455</u>

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the financial statements, the County's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended December 31, 2005, the County incurred expenditures in the General Fund and eight (8) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
General Fund			
Legal counsel	\$ 16,000	\$ 21,571	\$ 5,571
Clerk	218,039	223,647	5,608
Courthouse and grounds	398,160	406,773	8,613
Sheriff - general	221,316	234,847	13,531
Snowmobile safety	-	21,445	21,445
Substance abuse appropriation	29,000	30,120	1,120
Medical examiner	31,588	49,512	17,924
Veterans' burials	6,600	7,050	450
Capital outlay	9,900	16,405	6,505
Special Revenue Funds			
Jail TRV	2,149,065	2,299,103	150,038
Register of Deeds Automation	33,000	33,568	568
Drug Law Enforcement	-	23,040	23,040
D.A.R.E. Program	41,172	44,335	3,163
Local Officer Training	2,000	3,314	1,314
Child Care Probate	496,452	527,493	31,041
Veteran's Trust	1,500	2,682	1,182

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE P: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustment was made during the year, which was the result of corrections of accounting errors. This adjustment was reported as changes to beginning fund balance and net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	December 31,		<u>Description</u>
	<u>2005</u>	<u>2004</u>	
GOVERNMENTAL ACTIVITIES			
Fund Level - Housing Escrow Fund/			
Government-wide level			
Cash	\$ -	\$(1,131)	Correct overstated cash
Revenue over (under) expenditures	-	(1,131)	
Fund balance - beginning	(1,131)	-	

REQUIRED SUPPLEMENTARY INFORMATION

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Taxes				
Current and delinquent property taxes	\$ 3,196,821	\$ 3,196,821	\$ 2,537,253	\$ (659,568)
Tax reverted land	1,500	1,500	2,052	552
Payments in lieu of taxes	133,000	133,000	147,330	14,330
Total taxes	3,331,321	3,331,321	2,686,635	(644,686)
Licenses and permits				
Gun permits	1,000	1,000	2,012	1,012
Dog licenses	4,850	4,850	8,720	3,870
Marriage license fees	250	250	410	160
Total licenses and permits	6,100	6,100	11,142	5,042
Intergovernmental - Federal/State				
Probate Judge's salary	139,919	139,919	171,061	31,142
Circuit Court Judge's salary	8,687	8,687	6,516	(2,171)
Juvenile officer	27,317	27,317	27,317	-0-
District Court case flow assistance	5,000	5,000	4,690	(310)
Court equity	88,000	89,437	96,091	6,654
Voter aid registration	2,850	2,850	2,590	(260)
Cigarette tax	-	-	7,084	7,084
Marine safety	-	10,390	10,667	277
Snowmobile grant	-	-	18,807	18,807
ORV grant	-	17,270	17,351	81
Homeland security grants	16,040	16,040	13,517	(2,523)
F.I.A. grant / P.A. attorney	-	-	14,871	14,871
Remonumentation	35,957	84,914	63,343	(21,571)
Convention and tourism tax	58,000	58,000	60,240	2,240
Liquor law enforcement	8,500	8,500	9,426	926
Federal forest grant	6,900	10,481	4,500	(5,981)
Total intergovernmental - Federal/State	397,170	478,805	528,071	49,266
Charges for services				
Circuit Court costs	12,350	12,350	16,234	3,884
Circuit Court services	7,170	7,170	8,271	1,101
District Court costs	230,700	230,700	153,736	(76,964)
District Court services	58,330	58,330	57,916	(414)
Probate Court services	31,550	31,550	22,130	(9,420)
Bond processing fees	1,500	1,500	692	(808)
County Treasurer services	10,500	10,500	2,062	(8,438)

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Charges for services - continued				
County Clerk services	\$ 4,000	\$ 4,000	\$ 6,349	\$ 2,349
Register of Deeds services	152,000	152,000	162,618	10,618
Inmate housing	65,000	65,000	49,253	(15,747)
Sheriff department services	27,600	27,600	45,290	17,690
Administrative services	198,470	198,941	118,491	(80,450)
Other	7,300	7,300	4,895	(2,405)
Total charges for services	806,470	806,941	647,937	(159,004)
Fines and forfeits				
Bond forfeitures	11,800	11,800	7,642	(4,158)
Interest and rents				
Interest on investments	5,000	5,000	5,023	23
Other				
Donations	-	-	1,033	1,033
Sale of land	750	750	574	(176)
Other sales	4,600	4,600	4,945	345
Insurance dividends	18,000	18,000	23,052	5,052
Reimbursements and refunds	27,900	57,157	39,102	(18,055)
Other	51,200	51,200	56,258	5,058
Total other	102,450	131,707	124,964	(6,743)
Total revenues	4,660,311	4,771,674	4,011,414	(760,260)
OTHER FINANCING SOURCES				
Transfers in				
Commissary	2,100	2,100	13,366	11,266
Sheriff Road Patrol	-	3,463	3,463	-0-
Jail TRV	17,000	21,300	30,000	8,700
Treasurer's Unrestricted Fund	361,432	361,432	361,432	-0-
Revenue Sharing Reserve Fund	220,000	220,000	197,468	(22,532)
Total other financing sources	600,532	608,295	605,729	(2,566)
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 5,260,843</u>	<u>\$ 5,379,969</u>	<u>\$ 4,617,143</u>	<u>\$ (762,826)</u>

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL

For the Year Ended December 31, 2005

	Budgeted Amounts			Variance
	Original	Amended	Actual	Favorable (Unfavorable)
General government				
Board of Commissioners	\$ 231,894	\$ 231,894	\$ 201,591	\$ 30,303
Trial Court	798,750	798,750	770,024	28,726
Circuit Court	1,925	1,925	1,012	913
Jury board	2,600	2,600	1,067	1,533
Public guardian	6,481	6,481	5,966	515
Elections	22,760	22,760	15,133	7,627
Accounting	70,440	96,440	81,040	15,400
Legal counsel	16,000	16,000	21,571	(5,571)
Clerk	218,039	218,039	223,647	(5,608)
Equalization	202,530	201,673	199,016	2,657
Prosecuting Attorney	217,672	214,572	198,188	16,384
Register of Deeds	67,307	67,307	51,633	15,674
Surveying/Remonumentation	39,955	89,383	89,383	-0-
Central copying	23,750	23,750	9,160	14,590
Treasurer	185,205	185,205	155,960	29,245
Cooperative extension	58,585	58,585	56,619	1,966
Courthouse and grounds	366,744	398,160	406,773	(8,613)
Drain commissioner	900	900	900	-0-
Soil conservation	2,500	2,500	2,500	-0-
Total general government	2,534,037	2,636,924	2,491,183	145,741
Public safety				
Sheriff - general	221,316	221,316	234,847	(13,531)
Marine safety	-	13,853	11,380	2,473
Snowmobile safety	-	-	21,445	(21,445)
ORV	-	20,851	17,799	3,052
Jail building and grounds	944,364	918,944	866,329	52,615
Jail kitchen	74,500	74,500	73,002	1,498
Emergency management	-	-	(1,922)	1,922
Animal control	122,115	124,815	98,247	26,568
Total public safety	1,362,295	1,374,279	1,321,127	53,152
Community and economic development				
Plat board	150	150	135	15
Planning appropriation	3,000	3,000	2,600	400
	3,150	3,150	2,735	415

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Health and welfare				
District Health department	\$ 94,103	\$ 94,103	\$ 90,390	\$ 3,713
Substance abuse appropriation	29,000	29,000	30,120	(1,120)
Medical examiner	31,588	31,588	49,512	(17,924)
Veterans burials	6,600	6,600	7,050	(450)
Mental Health	55,250	55,250	55,250	-0-
Family Independence Agency	2,000	2,000	2,000	-0-
Total health and welfare	218,541	218,541	234,322	(15,781)
Other				
Postage	35,000	35,000	33,846	1,154
Other	47,913	48,468	13,414	35,054
Total other	82,913	83,468	47,260	36,208
Capital outlay	6,200	9,900	16,405	(6,505)
TOTAL EXPENDITURES	4,207,136	4,326,262	4,113,032	213,230
OTHER FINANCING USES				
Transfers to other funds				
Revenue Sharing Reserve Fund	798,000	798,000	-	798,000
Friend of the Court Fund	4,069	4,069	-	4,069
Child Care Probate Fund	251,638	251,638	251,638	-0-
TOTAL OTHER FINANCING USES	1,053,707	1,053,707	251,638	802,069
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 5,260,843	\$ 5,379,969	\$ 4,364,670	\$ 1,015,299

Lake County, Michigan

Sheriff Road Patrol

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 1,070,527	\$ 1,070,527	\$ 1,104,716	\$ 34,189
Other	-	424	5,905	5,481
TOTAL REVENUES	1,070,527	1,070,951	1,110,621	39,670
EXPENDITURES				
Current				
Public safety	959,297	949,571	869,004	80,567
Capital outlay	2,500	12,650	61,210	(48,560)
TOTAL EXPENDITURES	961,797	962,221	930,214	32,007
EXCESS OF REVENUES OVER EXPENDITURES	108,730	108,730	180,407	71,677
OTHER FINANCING USES				
Operating transfer out	(108,730)	(108,730)	(65,165)	43,565
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	115,242	115,242
Fund balances, beginning of year	184,515	184,515	184,515	-0-
Fund balances, end of year	\$ 184,515	\$ 184,515	\$ 299,757	\$ 115,242

Lake County, Michigan

Jail TRV

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - Federal/State	\$ 1,900,000	\$ 2,096,565	\$ 2,050,255	\$ (46,310)
Other	36,000	37,500	44,821	7,321
TOTAL REVENUES	1,936,000	2,134,065	2,095,076	(38,989)
EXPENDITURES				
Current				
Public safety	1,899,036	2,057,601	1,780,437	277,164
Capital outlay	11,900	21,400	19,753	1,647
TOTAL EXPENDITURES	1,910,936	2,079,001	1,800,190	278,811
EXCESS OF REVENUES OVER EXPENDITURES	25,064	55,064	294,886	239,822
OTHER FINANCING USES				
Operating transfer in	15,000	15,000	186,713	171,713
Operating transfer out	(40,064)	(70,064)	(498,913)	(428,849)
TOTAL OTHER FINANCING USES	(25,064)	(55,064)	(312,200)	(257,136)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	(17,314)	(17,314)
Fund (deficits), beginning of year	(373,091)	(373,091)	(373,091)	-0-
Fund (deficits), end of year	\$ (373,091)	\$ (373,091)	\$ (390,405)	\$ (17,314)

Lake County, Michigan

Revenue Sharing Reserve

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 798,000	\$ 798,000	\$ 818,609	\$ 20,609
EXPENDITURES				
Current				
General government	-	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	798,000	798,000	818,609	20,609
OTHER FINANCING USES				
Operating transfer out	(220,000)	(220,000)	(197,468)	22,532
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	578,000	578,000	621,141	43,141
Fund balances, beginning of year	691,539	691,539	691,539	-0-
Fund balances, end of year	<u>\$ 1,269,539</u>	<u>\$ 1,269,539</u>	<u>\$ 1,312,680</u>	<u>\$ 43,141</u>

Lake County, Michigan

Ambulance

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 491,346	\$ 491,346	\$ 507,227	\$ 15,881
Interest	100	100	925	825
TOTAL REVENUES	491,446	491,446	508,152	16,706
EXPENDITURES				
Current				
Health and welfare	274,381	274,381	293,099	(18,718)
EXCESS OF REVENUES OVER EXPENDITURES	217,065	217,065	215,053	(2,012)
OTHER FINANCING USES				
Transfer out	(217,065)	(217,065)	(50,000)	167,065
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	165,053	165,053
Fund balances, beginning of year	398,021	398,021	398,021	-0-
Fund balances, end of year	<u>\$ 398,021</u>	<u>\$ 398,021</u>	<u>\$ 563,074</u>	<u>\$ 165,053</u>

OTHER SUPPLEMENTARY INFORMATION



Lake County, Michigan
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
December 31, 2005

	Special		
	Pleasant Plains Township Officer	Yates Township Officer	Emergency 911
ASSETS			
Cash and cash equivalents	\$ (107)	\$ (10,128)	\$ (217,510)
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	-	14,584
Local	592	10,129	-
TOTAL ASSETS	<u>\$ 485</u>	<u>\$ 1</u>	<u>\$ (202,926)</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 5,056
Accrued liabilities	485	-	11,562
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	485	-0-	16,618
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	-	1	(219,544)
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>-0-</u>	<u>1</u>	<u>(219,544)</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 485</u>	<u>\$ 1</u>	<u>\$ (202,926)</u>

Revenue				
Education Grants	Friend of the Court	Special Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ 14,915	\$ (4,973)	\$ -	\$ 51,127	\$ 35,695
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	40,970	133,454	-	-
-	-	-	-	-
<u>\$ 14,915</u>	<u>\$ 35,997</u>	<u>\$ 133,454</u>	<u>\$ 51,127</u>	<u>\$ 35,695</u>
\$ -	\$ 1,039	\$ -	\$ 1,880	\$ 1,654
-	3,948	-	4,227	-
-	-	133,454	-	-
-	-	-	-	-
-	-	-	-	-
-0-	4,987	133,454	6,107	1,654
-	-	-	-	-
14,915	31,010	-	45,020	34,041
-	-	-	-	-
<u>14,915</u>	<u>31,010</u>	<u>-0-</u>	<u>45,020</u>	<u>34,041</u>
<u>\$ 14,915</u>	<u>\$ 35,997</u>	<u>\$ 133,454</u>	<u>\$ 51,127</u>	<u>\$ 35,695</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2005

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
ASSETS			
Cash and cash equivalents	\$ (7,686)	\$ 280,949	\$ 17,091
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	17,938	22,855	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 10,252</u>	<u>\$ 303,804</u>	<u>\$ 17,091</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 1,457
Accrued liabilities	889	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	889	-0-	1,457
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	9,363	303,804	15,634
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>9,363</u>	<u>303,804</u>	<u>15,634</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 10,252</u>	<u>\$ 303,804</u>	<u>\$ 17,091</u>

Revenue				
D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act
\$ 13,383	\$ (11,847)	\$ (7,766)	\$ 5,558	\$ 1,990
-	-	-	-	-
-	2,000	-	-	-
-	16,000	-	-	-
-	-	18,030	-	-
-	-	-	-	-
<u>\$ 13,383</u>	<u>\$ 6,153</u>	<u>\$ 10,264</u>	<u>\$ 5,558</u>	<u>\$ 1,990</u>
\$ -	\$ 773	\$ -	\$ -	\$ -
1,215	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,215	773	-0-	-0-	-0-
-	-	-	-	-
12,168	5,380	10,264	5,558	1,990
-	-	-	-	-
<u>12,168</u>	<u>5,380</u>	<u>10,264</u>	<u>5,558</u>	<u>1,990</u>
<u>\$ 13,383</u>	<u>\$ 6,153</u>	<u>\$ 10,264</u>	<u>\$ 5,558</u>	<u>\$ 1,990</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2005

	Special		
	Local Officers Training	Child Care Probate	Veteran's Trust
ASSETS			
Cash and cash equivalents	\$ 5,064	\$ (219,360)	\$ 221
Investments	-	10,000	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	8,811	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 5,064</u>	<u>\$ (200,549)</u>	<u>\$ 221</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ 2,883	\$ -
Accrued liabilities	-	2,382	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	5,265	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	5,064	(205,814)	221
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>5,064</u>	<u>(205,814)</u>	<u>221</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 5,064</u>	<u>\$ (200,549)</u>	<u>\$ 221</u>

Revenue				Debt Service
Circuit Court Marriage Council	Housing Escrow Fund	Inmate Social Security	F.I.A. Building	Building Authority
\$ 21,955	\$ -	\$ 3,882	\$ 153,110	\$ 1,415
-	-	-	-	477,156
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 21,955</u>	<u>\$ -0-</u>	<u>\$ 3,882</u>	<u>\$ 153,110</u>	<u>\$ 478,571</u>
\$ -	\$ -	\$ -	\$ 1,258	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	-0-	-0-	1,258	-0-
-	-	-	-	478,571
21,955	-	3,882	151,852	-
-	-	-	-	-
<u>21,955</u>	<u>-0-</u>	<u>3,882</u>	<u>151,852</u>	<u>478,571</u>
<u>\$ 21,955</u>	<u>\$ -0-</u>	<u>\$ 3,882</u>	<u>\$ 153,110</u>	<u>\$ 478,571</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2005

	Capital		
	Ambulance Equipment Replacement	Other County Property	Courthouse Jail Renovation
ASSETS			
Cash and cash equivalents	\$ 355,057	\$ 292,666	\$ 2
Investments	-	-	13,172
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	11,417	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 355,057</u>	<u>\$ 304,083</u>	<u>\$ 13,174</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	2,500	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	35,962	-
Deferred revenue	-	11,417	-
TOTAL LIABILITIES	-0-	49,879	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	-	-	-
Capital projects funds	355,057	254,204	13,174
TOTAL FUND BALANCES (DEFICITS)	<u>355,057</u>	<u>254,204</u>	<u>13,174</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 355,057</u>	<u>\$ 304,083</u>	<u>\$ 13,174</u>

<u>Projects</u>	
<u>Capital Improvements</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 34,940	\$ 809,643
-	500,328
-	2,000
-	16,000
-	268,059
-	10,721
<u>\$ 34,940</u>	<u>\$ 1,606,751</u>
\$ -	\$ 16,000
-	27,208
-	133,454
-	35,962
-	11,417
-0-	224,041
-	478,571
-	246,764
34,940	657,375
<u>34,940</u>	<u>1,382,710</u>
<u>\$ 34,940</u>	<u>\$ 1,606,751</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	Special		
	Pleasant Plains Township Officer	Yates Township Officer	Emergency 911
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ 65,937
Charges for services	38,746	44,795	221,869
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	38,746	44,795	287,806
EXPENDITURES			
Current			
General government	-	-	-
Public safety	38,746	44,795	507,352
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	38,746	44,795	507,352
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	-0-	(219,546)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	(219,546)
Fund balances (deficits), beginning of year	-	1	2
Prior period adjustment	-	-	-
Fund balances (deficits), end of year	\$ -0-	\$ 1	\$ (219,544)

Revenue				
Education Grants	Friend of the Court	Special Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ -	\$ 183,298	\$ 305,699	\$ -	\$ -
-	7,997	-	244,727	37,575
-	-	-	-	-
-	-	-	-	-
-0-	191,295	305,699	244,727	37,575
-	195,924	-	-	33,568
-	-	-	257,357	-
-	-	305,699	-	-
-	-	-	6,456	-
-	-	-	-	-
-0-	195,924	305,699	263,813	33,568
-0-	(4,629)	-0-	(19,086)	4,007
-	35,638	-	-	-
-	-	-	-	-
-0-	35,638	-0-	-0-	-0-
-0-	31,009	-0-	(19,086)	4,007
14,915	1	-	64,106	30,034
-	-	-	-	-
\$ 14,915	\$ 31,010	\$ -0-	\$ 45,020	\$ 34,041

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2005

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
REVENUES			
Intergovernmental			
Federal/State	\$ 31,724	\$ -	\$ -
Charges for services	-	90,872	-
Interest and rents	-	-	-
Other	-	-	2,886
TOTAL REVENUES	31,724	90,872	2,886
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	40,634	23,040
Health and welfare	31,722	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	31,722	40,634	23,040
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2	50,238	(20,154)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	2	50,238	(20,154)
Fund balances (deficits), beginning of year	9,361	253,566	35,788
Prior period adjustment	-	-	-
Fund balances (deficits), end of year	\$ 9,363	\$ 303,804	\$ 15,634

Revenue				
D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act
\$ -	\$ -	\$ 64,065	\$ -	\$ 4,046
-	2,500	-	274	-
-	-	-	-	-
9,683	-	-	-	-
9,683	2,500	64,065	274	4,046
-	9,266	-	-	-
44,335	-	77,530	-	3,570
-	-	-	-	-
-	-	-	-	-
44,335	9,266	77,530	-0-	3,570
(34,652)	(6,766)	(13,465)	274	476
41,172	8,000	20,530	-	-
-	-	-	-	-
41,172	8,000	20,530	-0-	-0-
6,520	1,234	7,065	274	476
5,648	4,146	3,199	5,284	1,514
-	-	-	-	-
\$ 12,168	\$ 5,380	\$ 10,264	\$ 5,558	\$ 1,990

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2005

	Special		
	Local Officers Training	Child Care Probate	Veteran's Trust
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ 285,128	\$ 1,514
Charges for services	4,191	19,148	-
Interest and rents	-	1,324	-
Other	-	10,000	-
TOTAL REVENUES	4,191	315,600	1,514
EXPENDITURES			
Current			
General government	3,314	-	2,682
Public safety	-	-	-
Health and welfare	-	527,493	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	3,314	527,493	2,682
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	877	(211,893)	(1,168)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	216,000	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	216,000	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	877	4,107	(1,168)
Fund balances (deficits), beginning of year	4,187	(209,921)	1,389
Prior period adjustment	-	-	-
Fund balances (deficits), end of year	\$ 5,064	\$ (205,814)	\$ 221

Revenue				Debt Service
Circuit Court Marriage Council	Housing Escrow Fund	Inmate Social Security	F.I.A. Building	Building Authority
\$ -	\$ -	\$ -	\$ -	\$ -
1,170	-	-	-	-
-	-	18	208,932	7,488
-	-	-	-	-
1,170	-0-	18	208,932	7,488
-	-	-	-	6,525
-	-	-	-	-
-	-	-	28,416	-
-	-	-	-	-
-	-	-	-	598,518
-0-	-0-	-0-	28,416	605,043
1,170	-0-	18	180,516	(597,555)
-	-	-	-	604,518
-	-	-	(197,725)	(162,594)
-0-	-0-	-0-	(197,725)	441,924
1,170	-0-	18	(17,209)	(155,631)
20,785	1,131	3,864	169,061	634,202
-	(1,131)	-	-	-
\$ 21,955	\$ -0-	\$ 3,882	\$ 151,852	\$ 478,571

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2005

	Capital		
	Ambulance Equipment Replacement	Other County Property	Courthouse Jail Renovation
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ -
Charges for services	-	-	-
Interest and rents	-	24,280	-
Other	-	6,937	-
TOTAL REVENUES	-0-	31,217	-0-
EXPENDITURES			
Current			
General government	-	-	859
Public safety	-	-	-
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	-0-	859
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	31,217	(859)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	50,000	165,000	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	50,000	165,000	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	50,000	196,217	(859)
Fund balances (deficits), beginning of year	305,057	57,987	14,033
Prior period adjustment	-	-	-
Fund balances (deficits), end of year	\$ 355,057	\$ 254,204	\$ 13,174

<u>Projects</u>	
<u>Capital Improvements</u>	<u>Total</u>
\$ -	\$ 941,411
-	713,864
-	242,042
<u>34,940</u>	<u>64,446</u>
34,940	1,961,763
-	252,138
-	1,037,359
-	893,330
-	6,456
<u>-</u>	<u>598,518</u>
<u>-0-</u>	<u>2,787,801</u>
34,940	(826,038)
-	1,140,858
<u>-</u>	<u>(360,319)</u>
<u>-0-</u>	<u>780,539</u>
34,940	(45,499)
-	1,429,340
<u>-</u>	<u>(1,131)</u>
<u>\$ 34,940</u>	<u>\$ 1,382,710</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2005

	<u>Treasurer's Administrative</u>	<u>Commissary</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,563	\$ 4,900	\$ 6,463
LIABILITIES			
Current liabilities			
Accounts payable	<u>-</u>	<u>3,490</u>	<u>3,490</u>
NET ASSETS			
Unrestricted	<u>\$ 1,563</u>	<u>\$ 1,410</u>	<u>\$ 2,973</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET ASSETS

Year Ended December 31, 2005

	Treasurer's Administrative	Commissary	Total
OPERATING REVENUES			
Charges for services	\$ -	\$ 103,411	\$ 103,411
OPERATING EXPENSES			
Other	3,181	83,927	87,108
OPERATING INCOME (LOSS)	(3,181)	19,484	16,303
NONOPERATING REVENUES			
Interest revenue	9	-	9
INCOME (LOSS) BEFORE TRANSFERS	(3,172)	19,484	16,312
OTHER FINANCING (USES)			
Operating transfers out	-	(37,485)	(37,485)
NET (LOSS)	(3,172)	(18,001)	(21,173)
Net assets, beginning of year	4,735	19,411	24,146
Net assets, end of year	\$ 1,563	\$ 1,410	\$ 2,973

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

	Treasurer's Administrative	Commissary	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ -	\$ 121,411	\$ 121,411
Cash paid to suppliers	(3,181)	(85,998)	(89,179)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,181)	35,413	32,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	-	(37,485)	(37,485)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	9	-	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,172)	(2,072)	(5,244)
Cash and cash equivalents, beginning of year	4,735	6,972	11,707
Cash and cash equivalents, end of year	\$ 1,563	\$ 4,900	\$ 6,463
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (3,181)	\$ 19,484	\$ 16,303
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Decrease in accounts receivable	-	18,000	18,000
(Decrease) in accounts payable	-	(2,071)	(2,071)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (3,181)	\$ 35,413	\$ 32,232

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2005

	Central Stores	Employee Benefit Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ (7,343)	\$ 186,567	\$ 179,224
Inventory	9,831	-	9,831
Due from other funds	341	-	341
TOTAL ASSETS	2,829	186,567	189,396
LIABILITIES			
Current liabilities			
Accounts payable	260	-	260
Due to other funds	-	6	6
TOTAL LIABILITIES	260	6	266
NET ASSETS			
Restricted for employee benefits	-	186,561	186,561
Unrestricted	2,569	-	2,569
TOTAL NET ASSETS	\$ 2,569	\$ 186,561	\$ 189,130

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2005

	Central Stores	Employee Benefit Fund	Total
OPERATING REVENUES			
Charges for services	\$ 19,370	\$ 1,734,904	\$ 1,754,274
OPERATING EXPENSES			
Personal services and fringes	-	1,687,318	1,687,318
Supplies	20,208	-	20,208
TOTAL OPERATING EXPENSES	20,208	1,687,318	1,707,526
CHANGE IN NET ASSETS	(838)	47,586	46,748
Net assets, beginning of year	3,407	138,975	142,382
Net assets, end of year	\$ 2,569	\$ 186,561	\$ 189,130

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

	Central Stores	Employee Benefit Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from users	\$ 18,408	\$ 1,734,904	\$ 1,753,312
Cash paid to suppliers	(20,550)	-	(20,550)
Cash paid for employee benefits	-	(1,709,674)	(1,709,674)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(2,142)	25,230	23,088
Cash and cash equivalents, beginning of year	(5,201)	161,337	156,136
Cash and cash equivalents, end of year	<u>\$ (7,343)</u>	<u>\$ 186,567</u>	<u>\$ 179,224</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (838)	\$ 47,586	\$ 46,748
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
(Increase) in inventory	(962)	-	(962)
(Decrease) in accounts payable	(342)	(22,356)	(22,698)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (2,142)</u>	<u>\$ 25,230</u>	<u>\$ 23,088</u>

Lake County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2005

	Agency Funds			
	Trust and Agency	Library Penal	Transportation Millage Fund	Total
ASSETS				
Cash and cash equivalents	\$ 2,544,881	\$ 25,273	\$ 9,436	\$ 2,579,590
Due from governmental units - State	108,947	-	-	108,947
TOTAL ASSETS	2,653,828	25,273	9,436	2,688,537
LIABILITIES				
Undistributed collections payable	\$ 509,075	\$ 17,287	\$ 9,436	\$ 535,798
Deposits payable	8,747	-	-	8,747
Due to other governmental units				
Federal/State	2,007,017	-	-	2,007,017
Local	108,167	-	-	108,167
Due to others	20,822	7,986	-	28,808
TOTAL LIABILITIES	\$ 2,653,828	\$ 25,273	\$ 9,436	\$ 2,688,537

Lake County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

December 31, 2005

	Capital Projects		
	Big Star Lake Level Revolving	Wolf Lake Level Revolving	Total
ASSETS			
Cash and cash equivalents	\$ 2,195	\$ 2,865	\$ 5,060
Special assessments receivable	2,788	-	2,788
TOTAL ASSETS	\$ 4,983	\$ 2,865	\$ 7,848
FUND BALANCES			
Unreserved			
Undesignated - reported in capital projects	\$ 4,983	\$ 2,865	\$ 7,848

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2005.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

For the Year Ended December 31, 2005

	Capital Projects		
	Big Star Lake Level Revolving	Wolf Lake Level Revolving	Total
REVENUES			
Special assessment	\$ 2,769	\$ -	\$ 2,769
Interest	3	14	17
TOTAL REVENUES	2,772	14	2,786
EXPENDITURES	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	2,772	14	2,786
Fund balances, beginning of year	2,211	2,851	5,062
Fund balances, end of year	\$ 4,983	\$ 2,865	\$ 7,848

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2005.

Lake County, Michigan

Component Unit Funds

BALANCE SHEET - COUNCIL ON AGING

December 31, 2005

	Special Revenue
ASSETS	
Cash and cash equivalents	\$ 118,335
Taxes receivable	276,465
TOTAL ASSETS	<u>\$ 394,800</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 6,894
Deferred revenue	276,465
TOTAL LIABILITIES	283,359
FUND BALANCE	
Fund balance	
Unreserved undesignated	111,441
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 394,800</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2005.

Lake County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - COUNCIL ON AGING

For the Year Ended December 31, 2005

	Special Revenue
REVENUES	
Taxes	\$ 266,595
EXPENDITURES	
Health and welfare	<u>225,691</u>
EXCESS OF REVENUES OVER EXPENDITURES	40,904
Fund balances, beginning of year	<u>70,537</u>
Fund balances, end of year	<u>\$ 111,441</u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2005.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Lake County
Baldwin, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2005, and have issued our report thereon dated April 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Lake County in a separate letter dated April 13, 2006.

This report is intended solely for the information and use of the administration and Board of Commissioners of Lake County, and the federal award agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006

Lake County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2005

Lake County, Michigan

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Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Lake County
Baldwin, Michigan

Compliance

We have audited the compliance of Lake County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that is applicable to each of its major Federal programs for the year ended December 31, 2005. Lake County's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Lake County's management. Our responsibility is to express an opinion on Lake County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Lake County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lake County's compliance with those requirements.

In our opinion, Lake County complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ending December 31, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 05-1.

Internal Control Over Compliance

The management of Lake County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Lake County's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Lake County as of and for the year ended December 31, 2005, and have issued our report thereon dated April 13, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Lake County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006

Lake County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF JUSTICE					
The Drug Control and System Improvement Grant Program Passed through Michigan Family Independence Agency Juvenile Justice ^(e)	16.523				
04/05 Regular		JABGN-04-43001	\$ 45,105	\$ 27,410	\$ 14,783
05/06 Regular		JABGN-05-43001	<u>34,149</u>	<u>-</u>	<u>28,032</u>
			79,254	27,410	42,815
BASIC Grant	16.540				
2004		N/A	15,000	6,876	7,851
2005		N/A	<u>15,000</u>	<u>-</u>	<u>11,405</u>
			30,000	6,876	19,256
U.S. DEPARTMENT OF TRANSPORTATION					
Hazardous Materials Emergency Planning	20.703				
2004/05 HMEP		N/A	600	-	600
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through Michigan Family Independence Agency Child Support Enforcement (Title IV-D) ^{(a) (c)}	93.563				
Cooperative Reimbursement - Friend of the Court/Prosecuting Attorney Combined Grant					
03/04		CS/COMB-04-43003	148,189	148,112	63
04/05		CS/COMB-05-43003	203,011	39,029	118,805
Cooperative Reimbursement - Friend of the Court					
05/06		CS/FOC-06-43001	139,401	-	36,045
Cooperative Reimbursement - Prosecuting Attorney					
05/06		CS/PA-06-43002	69,701	-	10,942

Lake County, Michigan

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For the Year Ended December 31, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED					
Passed through Michigan Family Independence Agency - continued Child Support Enforcement - continued (Title IV-D) ^{(a) (c)}	93.563				
Incentive Payments ^(b)					
2005 Regular		N/A	\$ 14,064	\$ -	\$ 14,064
Medical Support Collection					
Friend of the Court FY 03/04		CS/MED-04-43003	1,031	-	1,031
Friend of the Court FY 04/05		CS/MED-05-43001	12,000	6,031	5,260
Friend of the Court FY 05/06		CS/MED-06-43001	<u>5,288</u>	<u>-</u>	<u>1,341</u>
			592,685	193,172	187,551
Social Services EZ/EC ^{(c) (d)} 94-09	93.667	EZEC-95-43001	2,947,368	1,922,070	305,699
U.S. DEPARTMENT OF AGRICULTURE					
Forestry Services - Rivers and Campgrounds Project (Direct Programs) 2005	10.664	01-LE-11090401-005	4,500	-	4,500
Rural Development - Community Facilities Loans and Grants ^(c) (Direct Programs)	10.766	N/A	5,275,000	-	4,453,340
Passed through Michigan Department of Natural Resources Schools and Roads - Grants to States 2005	10.665	N/A	117,258	-	117,258

Lake County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY					
Passed through Michigan State Police					
State Homeland Security ^(f)	97.004				
2003 SHSGP - SAP		N/A	\$ 25,000	\$ 10,756	\$ 10,627
2003 SHSGP - Exercise Grant		N/A	39,154	36,528	2,626
2003 SHSGP - Training Grant		N/A	18,451	3,621	4,369
2004 HSGP - CBRNE		N/A	<u>68,660</u>	<u>-</u>	<u>56,570</u>
			151,265	50,905	74,192
Homeland Security Grant Program ^(f)					
2005 EMPG	97.067		2,792	-	2,742
Emergency Management Performance Grant	97.042				
2004 EMPG		N/A	<u>23,463</u>	<u>21,543</u>	<u>1,920</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 9,224,185</u>	<u>\$ 2,221,976</u>	<u>\$ 5,209,873</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2005

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Lake County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a)-(e) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Family Independence Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of total contract expenditures.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes programs tested as "major programs".
- (d) This program is reported as of the subrecipient's fiscal year-end of September 30, 2005.
- (e) The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the 90% of total contract expenditures.
- (f) Programs considered a cluster by the U.S. Department of Homeland Security.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the December 31, 2005, basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
Homeland Security Grants	\$ 13,517	\$ -	\$ -	\$ 13,517
CRP Revenue - PA	14,871	(3,929)	-	10,942
Federal Forest	4,500	-	-	4,500
Other Programs	<u>495,183</u>	<u>(495,183)</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	528,071	(499,112)	-0-	28,959

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2005

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
SPECIAL REVENUE FUNDS				
Emergency 911	\$ 65,937	\$ -	\$ -	\$ 65,937
Friend of the Court	183,298	(6,689)	-	176,609
Child Care	285,128	(223,057)	-	62,071
Social Services EZ/EC				
Pass through Grant	305,699	-	-	305,699
Other programs	<u>101,349</u>	<u>(101,349)</u>	<u>-</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	941,411	(331,095)	-0-	610,316
CAPITAL PROJECTS FUNDS				
TRV Capital Projects	-	-	4,453,340 ⁽²⁾	4,453,340
TRUST AND AGENCY FUNDS				
Trust and Agency	<u>-</u>	<u>-</u>	<u>117,258 ⁽¹⁾</u>	<u>117,258</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,469,482</u>	<u>\$(830,207)</u>	<u>\$ 4,570,598</u>	<u>\$ 5,209,873</u>

Following is a summary of the adjustments in the above schedule:

- (1) The adjustment related to amounts reported as an increase when received and a decrease when disbursed within the trust and agency fund's activity because the County acts in a trustee capacity of these funds and distributes them to the local units of government and therefore does not recognize the funds as revenues of expenditures, but recognizes the amounts as expenditures in the Schedule of Expenditures of Federal Awards as of December 31, 2005 in accordance with OMB Circular A-133.
- (2) The adjustment related to the TRV Capital Projects Fund represents USDA loan proceeds which are reported in the financial statements as other financing sources in accordance with generally accepted accounting principles (GAAP). These funds were recognized in the Schedule of Expenditures of Federal Awards as of December 31, 2005 as required by the U.S. Department of Agriculture.

NOTE D: SUBRECIPIENTS

Of the Federal expenditures presented in the Schedule of Expenditures of Federal Awards as of December 31, 2005, the County provided Federal awards to subrecipients in the amount of \$305,699 from the U.S. Health and Human Services Social Services EZ/EC grant (CFDA 93.667) and \$117,258 from the U.S. Department of Agriculture Schools and Roads - Grants to States (CFDA 10.665).

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2005, and have issued our report thereon dated April 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to administration and the Board of Commissioners of Lake County in a separate letter dated April 13, 2006.

This report is intended solely for the information of management, the Board of Commissioners and management of Lake County, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006

East Lansing ■ Rochester Hills ■ St. Johns

SCHEDULE OF FINDINGS

For the Year Ended December 31, 2005

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements. The County did not qualify as a low-risk auditee.

An unqualified opinion was issued on compliance for major programs. We did disclose a finding related to internal controls or compliance related to the one (1) of the major programs tested as noted below.

The major programs tested to cover 50 percent of the total Federal expenditures were the Rural Development - Community Facilities Loans and Grants (CFDA 10.766), Child Support Enforcement (Title IV-D) (CFDA 93.563) and the Social Services EZ/EC (CFDA 93.667) programs. Total Federal expenditures for the year ended December 31, 2005 for the major programs were \$4,946,590, which is approximately 95 percent of total Federal expenditures.

The County had two (2) Type A programs, Rural Development - Community Facilities Loans and Grants (CFDA 10.766; \$4,453,340) and the Social Services EZ/EC (CFDA 93.667; \$305,699). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

05-1 SUBRECIPIENT MONITORING

Social Services EZ/EC Grant Passed through the Michigan Family Independence Agency - CFDA 93.667; Grant No. ECEZ-95-43001; Grant period - continues through 2009.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the County had put in place formal procedures to monitor the subrecipient but the subrecipient did not comply with the County's requests to provide documentation through September 30, 2005 (the subrecipients fiscal year-end as reported in this audit) in order for the County to perform their required subrecipient monitoring and without that detail the County did not reflect the grant activity within the County's general ledger. This activity was recorded as an audit entry from the subrecipient's most recent audit. The subrecipient has assured the County that effective October 1, 2005 they will comply with providing sufficient documentation to the County for the County to record the activity in their general ledger and for the County to do the necessary subrecipient monitoring. This finding did not appear to result in any questioned costs.

We recommend the County assure that the subrecipient comply with the County's established subrecipient monitoring procedures and require the subrecipient to submit the necessary data so the County can review the documentation prior to submission to the funding source for reimbursement. This documentation will also provide the necessary documentation the County needs to record the activity in an appropriate Special Revenue Fund.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2005

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

As noted in the prior year financial statements, the County did not have a formal procedure in place to monitor subrecipients and that monitoring was not performed during the prior year. The prior finding was as follows:

Social Services EZ/EC Grant Passed through the Michigan Family Independence Agency - CFDA 93.667; Grant No. ECEZ-95-43001; Grant period - continues through December 2009.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the County did not have formal procedures in place to monitor the subrecipient during the prior year. It was also noted that no monitoring was performed during the prior year other than a County representative being on the board of the subrecipient entity who obtained a copy of the subrecipient's audit on an annual basis and the County received copies of the check warrants but no detail was provided to support the expenditures. This finding did not appear to result in any questioned costs.

We recommended the County implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures.

Some of the issues related to this prior finding have been resolved. The compliance of the subrecipient to provide necessary information in order to fully resolve this issue has not been resolved and is repeated at 05-1 for the current year as this program was selected as a major program for the current year.

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MANAGEMENT LETTER

To the Board of Commissioners
of Lake County
Baldwin, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Lake County, Michigan for the year ended December 31, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The bank reconciliation process in the Treasurer's office needs to be evaluated and modified.

As noted last year, based on our analysis of the bank reconciliations, we noted that several bank accounts were not reconciled throughout the year and still were not complete when we started year-end fieldwork. It was noted that various general ledger posting errors and unrecorded transactions had not been properly accounted for until the reconciliations were completed well after year-end.

Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. There is a high probability that fraud could occur and go undetected. It is impossible to know if this may have happened in 2004 or 2005 without more in depth analysis. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs. Timely bank reconciliations are a critical accounting function. As a result of not reconciling the County's bank accounts in a timely manner, reconciling items were not identified and resolved until a significant time after year-end.

We suggest the County assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the County to monitor cash flow.

2. Areas related to the receipting process need to be evaluated and modified.

During our analysis of decentralized receipts processing within the Treasurer's office we noted an instance where there was a difference in the amounts the Treasurer's records showed as deposited to the bank and the amounts reported in the general ledger. The difference was between amounts reported as "cash" and "checks" and this difference could not be specifically explained. This issue, since it occurred last year several times and then again this year coupled with failure to perform timely bank reconciliations, allows for the potential of fraud or other inappropriate activities to occur with no detection. This issue was noted and reported in our audit comments last year.

We suggest the County evaluate the receipting process related to reporting "cash" and "checks" and develop additional controls to prevent these kinds of issues in the future.

3. A reconciliation of trust and agency liability accounts to supporting documentation should be performed.

During the course of our audit it was noted that several trust and agency liability accounts had not been reconciled to supporting documentation and those accounts had not been adjusted in the general ledger. This issue was noted and reported in our audit comments last year.

We suggest the significant trust and agency liability accounts be reconciled at a specific point in time, and any necessary adjustments to the general ledger be made.

4. The County should review the status of individual fund equities (deficits) near year-end.

As noted in the financial statements, the County had three (3) funds that ended the year in a deficit financial position. As a result, the County will be required to submit a deficit reduction plan to the State of Michigan for these funds.

We suggest the County review the status of all funds near year-end and make appropriate adjustments when possible to eliminate deficits.

5. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the County exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. It was also noted that not all Special Revenue Funds had budgets adopted for 2005.

The Michigan Public Act 621 of 1978, as amended, provides that the County shall not incur expenditures in excess of the amounts appropriated. The County is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the County adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

6. The process of reconciling of delinquent tax receivables needs to be evaluated and modified.

During the course of the audit, it was determined that the County had not reconciled their subsidiary delinquent tax receivable system to the County general ledger for most of the year and retained the reconciliations for audit purposes. This issue was noted and reported in our audit comments last year.

Subsequent to year-end the Treasurer's office was able to reconcile these receivable and entries were posted to correct them in the current audited financial statements.

We suggest the Treasurer's office reconcile these subsidiary ledgers to the general ledger periodically throughout the year and investigate and correct any difference noted between the subsidiary delinquent tax receivable system and the County general ledger and retain all reconciliation documentation for audit purposes.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 13, 2006.

This report is intended solely for the use of management and the Board of Commissioners of Lake County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 13, 2006